Vodafone Idea Limited Conference Cal

August 16, 2021

Moderator: Good afternoon, ladies and gentlemen. This is Margreth, the moderator for your conference call. Welcome to the Vodafone Idea Limited conference. For the duration of this presentation, all participants' lines will be in listen only mode. After the presentation, a question-and-answer session will be conducted.

We have with us today Mr. Ravinder Takkar - MD & CEO of Vodafone Idea Limited and Mr. Akshaya Moondra - CFO of Vodafone Idea Limited, along with other key members of the senior management on this call. I want to thank the management team on behalf of all the participants for taking valuable time to be with us.

Given that the senior management is on this conference call, participants are requested to focus on the key strategic and important questions to make sure that we make good use of the senior management time.

I must remind you that the discussion on today's call may include certain forward-looking statements and must be viewed therefore in conjunction with the risks that the company faces. With this, I hand the conference call over to Mr. Ravinder Takkar. Thank you and over to you, sir.

Ravinder Takkar: Thank you, Margreth. On behalf of Vodafone Idea, I welcome all participants to this earnings call. On 14th August, our Board of Directors adopted the unaudited results for the quarter ending June 30, 2021. The detailed Press Release, Quarterly report and unaudited financials have already been uploaded on our website and I hope you had a chance to go through the same.

Let me start with discussing our ongoing strategic initiatives along with operational highlights for the quarter and I will then handover to Akshaya to share details on the Company’s financial performance.

The quarter 1 of this financial year was impacted due to a severe second wave of Covid that hit the country. Several states such as Maharashtra, including Mumbai city, and Delhi witnessed stringent restrictions since Mid-April, while Karnataka and several other states followed suit. There was complete lockdown in majority of the districts while there was weekend/partial lockdown, restricted timings and night curfew in the rest. As a result, gross additions as well tertiary sales were impacted.

Our workforces was also impacted. We lost few of our colleagues while several others have been affected and many of our colleagues have lost their near and dear ones in the COVID pandemic. We have provided full medical support to every employee who had to be hospitalized or needed any medical assistance. We have also been arranging vaccination camps for our employees and their families. The vaccine finder feature on Vi app enabled our users to get easy access to information related to vaccine availability. For easy booking of vaccine, **Vi** has integrated the CoWin App on the Vi App for its customers.

Our relentless focus has been on delivering uninterrupted services and great end user experience while ensuring safety of our employees and partners. Throughout this pandemic, our Network warriors made heroic efforts in keeping the network running 24*7 throughout the lockdown, to ensure our customers can work, study, transact, and get the daily dose of entertainment from the safety of their homes.

With the fall in number of COVID cases and the beginning of unlock 2.0 by states, the economy has started to gradually recover. Though the impact continues to remain uneven across circles, we expect the operational and supply chain challenges to normalize in the coming months.

Moving on to our key strategic initiatives

The first one being focused network investments

We continue to follow a focused approach to investments, biased towards our 16 priority circles which contribute over 94% of our revenue. This helps us in utilizing our capex effectively while ensuring that we continue to offer superior customer experience in these areas.

We are progressively upgrading our 3G network to 4G. We closed over ~12,500 3G sites during the quarter, while we added over ~6,500 4G FDD sites mainly through refarming of 2G/3G spectrum. The process of refarming 3G spectrum to 4G on majority of sites in various cities have substantially enhanced the GIGAnet 4G capacity in those cities. Overall broadband site count stood at 447,114 lower compared to 452,650 a quarter ago, on account of shutdown of the 3G sites while we continue to add 4G sites. Vi's 4G coverage has already crossed the benchmark of 1 billion Indians last year.

Our focus on enhancing our network capacities and providing superior customer experience is helping us drive stronger network perception. Our constant endeavour to be the best 4G network in the country, is testified through top rankings across independent external reports on both data and voice. This comes at a time when people and businesses are more reliant on telecom connectivity for their work, education and all other aspects of life.

While we are currently in the middle of our 4G capex cycle, we have been deploying equipment which is 5G ready on both radio and core. We have the advantage of having latest 4G equipment and technologies which are capable of upgrade to 5G. Also, we have made substantial progress in deploying several 5G ready technologies such as, Massive MIMO, DSR, Cloudification of core, etc and they are very much central to our strategy for future growth. As mentioned last quarter, we have initiated 5G trials with our major network partners, which is progressing well. We are setting up dedicated captive network to test out various use cases for demonstration to DOT. This will further help in improving customer experience, in addition to other network benefits.

As a part of our digital transformation journey Vi has also partnered with Cisco to design and build a cost-efficient network architecture to drive greater speed to market with emerging opportunities in 4G & 5G, cloud, and IoT.

Moving on to market initiatives

With the need for data increasing, we launched & promoted a new campaign focusing on Vi Hero Unlimited plans. This campaign highlights the 3 features that the plans offer – Weekend Data Rollover, Night Time Free Data from 12 AM to 6 AM and double data. Vi Hero Unlimited campaign seeks to ensure that the customers thrive in the digital ecosystem and that they never run out of data on their packs. This unique proposition aims to increase unlimited and 4G subscriber base by attracting new users to Vi network. We aim to scale up the proportion of high ARPU subscribers through large programs in conjunction with OEMs and NBFCs for 4G device. We have also expanded eSIM technology for Vi postpaid users to 10 priority circles.

We continue to look for ways to improve ARPU by driving 4G/UL plan penetration. We have taken several tariff interventions in the last couple of months –

- We had launched the 30/60 day plans with no daily limits with lower data bundled as compared to the UL daily plans in Q1
- We have increased entry level corporate postpaid plans to Rs. 299 from Rs. 199
- We have increased the entry level non UL prepaid plans to Rs. 79 from Rs. 49 in majority of the circles
- We had rolled out hikes on some of our postpaid family plans across all circles few days back

While all these tariff interventions are steps in the right directions and will help in improving the ARPU, such changes are not material enough to solve the structural issue that the industry is facing. As mentioned by us time and again, tariff hike remains critical to revive the sector and pricing structure has to change where operators have the ability to charge customers for incremental usage. We thus continue to engage with the regulator on floor pricing which is critical and necessary to improve the overall health of the industry.

On Business services –

Business services continues to be one of our key focus areas. In Vi Business, as we progress on our journey from telco to techco, we continue to strengthen our partnerships with our customers with new range of offerings like Vi Integrated IoT, Managed SIP, Vi Cloud Firewall Service and Vi Business Plus bundled mobility offering. We are the first and the only telecom operator to provide Managed SIP service in India. Our Cloud Telephony solution is helping SMEs to automate & enhance their customer interactions with features like auto receptionist, lead management and others.

The pandemic has accelerated growth in digital ways of working for businesses and workloads are increasingly migrating to cloud leading to a rise in demand for reliable security solutions. We have strengthened our security portfolio with the launch of Vi Cloud Firewall, a cloud-deployed security solution for enterprises and businesses. We are powering hybrid workplaces and providing seamless digital experiences with differentiated propositions like Vi Business Plus. Vi Business Plus helps businesses strike the right balance between business objectives and employee preferences with advanced solutions like location tracking, mobile security, and entertainment.

The new and emerging cloud and IoT services are central to our business services growth strategy. We continue to derive tremendous synergies from our relationship with Vodafone Group, who are a global leader in the IoT segment. We have further strengthened our IoT portfolio with the launch of Integrated IoT solutions for enterprises, which is a pioneer offer in the market. We have started this journey of integrated IoT with proposition of Smart Infrastructure, Smart Mobility and Smart Utilities to address the need of these industries and will keep adding to the list. The launch of our integrated IoT solutions is a strategic step towards making Vi Business – an IoT ecosystem integrator for Indian enterprises and driving our transformation from a 'Telco' to 'Techco'.

The next strategic initiative is driving partnerships and digital revenue streams

We continue to partner with content providers to promote new & engaging content through Vi movies & TV. Our vast content library coupled with differentiated data benefits in the industry has led to a winning proposition for both, us and our customers. I am happy to announce that Vi would be launching a music streaming service in partnership with a leading music service provider, which will be available to all our prepaid & postpaid consumers. The partner will not only bring in a rich repository of Music cutting across genres & languages, covering over 15 Indian languages, but will also have podcasts, live events & music videos as part of the offering. The service comes with a strong recommendation engine to offer a truly personalized experience to the users. The music service will be available through our digital assets. We are quite confident that we should be able to offer a truly delightful experience to our users, comparable & better on many fronts than the currently available services in the country. We will provide more details closer to the date of launch.

One of the key pillars of VIL's business strategy is to drive partnerships and digital revenue streams, across segments. We have been entering into strategic partnerships with key players in the areas of Learning & Upskilling, Health & Wellness, and Business help to offer benefits to the new age customers. The company has forged partnerships with several internet first companies and plans to on-board more partners under each of these areas to enable Vi users get exclusive offers from these players. Our innovative and partnership led content strategy has thus helped us adopt a telco-first approach for content monetisation in this hugely untapped market.

Vi is committed to delivering best-in-class services to their subscribers and bridging the digital divide that separates urban from rural. We will continue to focus on our platform capabilities to offer a deeper integration with our partners for a differentiated experience, create monetization opportunities and truly become an integrated digital service provider.

And lastly, on our cost optimization exercise. As you are aware, we target to achieve Rs. 40 billion of annualized opex savings by end of this calendar year. As of this quarter, we have already achieved ~70% of the targeted annualised cost savings.

Moving on to operational highlights for the quarter

Revenue for the quarter was Rs. 91.5 billion, a decline of 4.7% QoQ, impacted by the slowdown of economic activities during the severe second wave of COVID. The subscriber base declined by 12.3 million and now stands at 255.4 million, impacted by lockdowns and restricted store timings. The 4G subscriber base was relatively resilient at 112.9 million vs 113.9 million in Q4FY21. With data demand surging during the lockdown, we witnessed strong data volume growth of 13.2% QoQ, which reflects strong consumer engagement and superior experience offered by our network.

Within the quarter, May was the worst impacted month, while we had started to see some recovery in June. In July, as the markets have been gradually opening up and business activities resuming, we expect improvement in gross additions and recharge trends in Q2. Meanwhile, we continue to focus on upgrading more customers to 4G plan and devices, which remains a key focus area for us.

A quick update on other developments

On the AGR matter, as you are aware, we had filed a modification application in the Supreme Court requesting them to allow the DoT to correct the manifest/clerical/arithmetic errors in computation of AGR demands. On July 23, 2021, the Hon'ble Supreme Court rejected plea by Company and Other Telecom Operators. Needless to say, we were disappointed by the verdict. We have recently filed a review petition in the Supreme Court, clearly indicating that the intent is not to challenge the judgement of the Court but to seek correction in demand due to manifest errors.

Further, Mr. Kumar Mangalam Birla, has stepped down as Non-Executive Director and Non-Executive Chairman of the Board. Subsequently, Mr. Himanshu Kapania has been elected in his place. The board has also appointed Mr. Sushil Agarwal as a director. Both Mr. Himanshu Kapania and Mr. Sushil Agrawal are veterans from the ABG group and bring in a wealth of experience.

Though Mr. Birla has stepped down, he as well as the ABG group and the Vodafone group are committed to provide support and guidance to the company, in line with the stated position of both the groups. We will thus continue to get benefit of their experience and support.

On fund raising, we continue to remain in active discussions with potential investors.

With that, I handover to Akshaya who will share the financial highlights for the quarter.

Akshaya Moondra: Thanks, Ravinder. A good afternoon to participants from India and a good morning or evening as applicable to overseas participants.

As Ravinder mentioned, the revenue for the quarter declined by 4.7% compared to last quarter, as the customers' ability to recharge, availability of physical recharges, and acquisition of new customers was impacted due to lock down or restrictions in majority of the districts during the severe second wave of COVID.

Adjusted for Ind-AS 116 impact, EBITDA was Rs. 13.8 billion for the quarter. There were one offs of Rs. 1 billion in the quarter primarily related to network & IT expense and employee costs. Adjusted for one offs, EBITDA of Rs. 12.8 billion was lower compared to Rs. 17.2 billion in last quarter, primarily on account of lower revenue.

We continue to progress on our cost optimization exercise to drive further savings and target to reduce our annual operating costs by Rs. 40 billion over Q4FY20 baseline. On a run rate basis by the end of Q1FY22 we have achieved approximately 70% of our target cost savings. CAPEX spend was Rs. 9.4 billion in this quarter. From this quarter the interest accrued but not due is included as a part of gross debt. As a result, the gross debt as of June 30, 2021, was Rs. 1,915.9 billion comprising of deferred spectrum payment obligations of Rs. 1,060.1 billion and AGR liability of Rs. 621.8 billion that are due to the government and debt from banks and financial institutions of Rs. 234.0 billion.

The cash and cash equivalents at the end of the quarter were at Rs. 9.2 billion. As a result, the net debt at the end of the quarter stood at Rs. 1,906.7 billion. With this, I hand over the call back to Margreth and open the floor for questions.

Moderator: Thank you very much. The first question is from the line of Sanjesh Jain from ICICI Securities. Please go ahead.

Sanjesh Jain: A couple of questions from my side. First on the subscriber addition, we saw 12 million decline, whereas the other competition saw flat base, and Reliance had a very strong addition of 14 million. So, there is a shift from the incumbent operators to Reliance Jio, is it due to JioPhone or do you think it was more of a COVID lockdown related delays in recharge, which is hurting subscriber base? Ravinder, you also mentioned that we have seen recovery in July and August, can you give some color, are we back to the levels of Q1 or we are still lower than that? And how does the addition look like? That is my first question.

Ravinder Takkar: Let me start off with the answer on the quarter's performance and the subscriber losses that we have. I can tell you that there is certainly a huge impact of the COVID second wave. You will recall from the earlier quarters, we had reached a point of continued reduction in the subscriber losses to a point where we had almost reached to a totally flat situation in Q4 of last year.

This severe second wave basically resulted in lockdowns. What we saw was that many of the customers either consolidated spend, or in some cases recharged on lower packs, because of lack of requirements on usage, for example, if they were together in a family at home. We certainly also saw due to the lockdown delays in recharging, which meant that they recharged, but maybe there were a few days in between that they missed because of the lockdowns or other reasons. Those were primarily the reasons why we saw this loss in not only subscriber numbers, but also in the tertiary, which is what is reflected in the revenue part.

I think there were a few things that were a positive sign. First of all, as mentioned earlier, on the 4G side, the subscriber base is very stable. We only saw a decline of 1 million 4G subscribers, which is quite heartening to see. And also at the same time, we saw that the subscribers who were there were heavily using the network and quarter-on-quarter a large amount of usage increase took place in this quarter due to the lockdown. And customer engagement and the quality of the network continues to be very, very good.

Then regards to competitors, honestly, it is hard for me to say about what the competitors are seeing. I think, clearly, at least on the Airtel numbers, you can see that the impact of lockdown is evident. It is hard to say what the Jio numbers are. I do not have an explanation for that and probably a question for them in any case. Now to the second part of your question, which was around the recovery.

Yes, actually as I mentioned earlier on in my opening comments May was the most challenging month. In June we already started to see recovery and June was better than May. Then we have seen that continued trend go on in July and August and as more and more of the country is opening up, we expect that trend to be continuing. I would say that, certainly we are better than the Q1 numbers that we were seeing in regard to overall market activity, which I think is a very positive sign.

Sanjesh Jain: One related question here on the network and network experience, we have been steadily seeing the growth in the data usage on the network. But our mobile broadband sites, we are not entirely replacing even the 3G sites we are removing or we are refarming into 4G. What is the reason for decline in the total mobile broadband sites by 5,500 while we are seeing a very healthy 13% quarter-on-quarter data usage growth?

Ravinder Takkar: That is a very good question, Sanjesh. Just let me make sure we clarify how these calculations are done, because I think it is important for everybody to understand how these things work. As we announced earlier in my opening comments that we closed down 12,500 3G sites. 3G mostly works on 2100 spectrum band. On a particular site, if we do not have any 4G equipment using that spectrum band, in that case, when we add 4G with that spectrum band, then that shows an addition for 4G sites. We already have 4G sites using the 2100 band in that same actual physical site. Then in that case, we just say 3G was shut down. And we do not show incrementally, a 4G site addition.

Actually our 4G site addition went up in the quarter by 6,500. The 3G site shutdown that took place effectively was 12,500 but that does not mean that our 4G coverage went down. It just meant that in those sites where 3G was shut down, more likely than not there was already 4G, where we are using the 2100 band and that is why we do not show an increment there.

The site count on 4G s not necessarily continuing to increase. On 3G site as soon as the 3G site is shut down if there is already a 4G equipment, the refarmed spectrum gets utilized or existing 4G site, and thus it does not show up as an incremental 4G site. Hope that explains. It is a bit complicated.

Sanjesh Jain: I got the point. We are telling that we have fired so many 2100 sites earlier, now that we are refarming from 3G to 4G, we do not get additional 2100 site and we are just firing up more spectrum from the existing BTS. So, the pipe has become bigger with the same equipment. Is that what we are inferring?

Ravinder Takkar: Yes. The 2100 starts to be on 4G rather than 3G, which provides a bigger capacity as you mentioned.

Akshaya Moondra: Sanjesh, if I may add, what happened is that in many circles, we have more than one carrier of 2100. Generally, in many of these circles, at least one carrier was continued in 3G till there were a significant number of 3G subscribers. As we see that, city-by-city the number of subscribers has come to a low level; and hence where it is possible to shut down 3G, the last carrier of 2100 has been refarmed to 4G.

Sanjesh Jain: Just one related question. I do not know it could be more hypothetical or we may not have the number, but it will be good if you can give some color. We say that we have good network in 16 circles, and we have close to 450,000 mobile broadband BTS. In the same circle, because the remaining two operators are pan India operator, what should be the comparable mobile broadband site? Are we equal to the competition when it comes to coverage on the 4G or we still lacked some coverage on the 4G versus the other two operators on the like-to-like basis in 16 circles?

Ravinder Takkar: Without getting into exact details because it is hard to tell, and we do not have their exact numbers on the 16 circles as they are declared at a national level. But I can tell you that our coverage in those 16 circles and number of sites will be quite comparable, in some circles more, in some circles less than circle but I think we would be comparable.

I do not think there is a significant gap that exists in these 16 circles, although it varies circle-by-circle. In some circles, we will be ahead and in some circles they will be ahead. At these 16 circle on the aggregate level, I do not think there is a huge gap between the two.

Sanjesh Jain: Two questions for Akshaya. One on the debt, Quarter-on-quarter our debt has gone up by Rs. 10,000 crores. Last quarter, including the accrued interest and all we were at Rs. 1,803 billion and this quarter, we are at Rs. 1,906 billion. Can you walk us through the increase in the net debt over last quarter to this quarter?

Akshaya Moondra: Until last quarter, we were not including the interest accrued but not due in the debt. This time we have included and that figure is in the ballpark of about Rs. 60 billion, adjusted for payments made during the quarter, and the remaining about Rs. 48 billion increase is coming mainly from two factors. One is that the debt relating to the spectrum, which was won in the March'21 auction, was not recognized as of March'21 and has been recognized now which is about Rs. 11 billion. The balance of approximately 37 billion reflects the interest which has been accrued during the quarter on the spectrum as well as the AGR debt.

If I were to give you a broad breakup, the interest accrued but not due which was not being added previously, and is now being disclosed in gross debt is about Rs. 60 billion, adjusted for payments during the quarter, about Rs. 37 billion is accrual of interest during the quarter on spectrum as well as AGR debt, and about Rs. 11 billion is on account of the spectrum debt relating to March 21 auction.

Sanjesh Jain: My last question is on one of the relief measure that is there in the news article which was published. It says that government may consider accepting the spectrum back and may look at wavering the liabilities. Do we think we have any excess spectrum in our system to evaluate, if at all this policy is to be implemented?

Ravinder Takkar: Sanjesh, this idea of taking back spectrum, there have been some media speculation and we would not like to comment on media speculation. We believe we have adequate spectrum for our customer base, and for the plans that we have going forward. There was a recent spectrum auction, as you are aware, in February, where we optimized our spectrum holdings even further.

We believe that we have the right amount of spectrum. We see that this is enough for our growth and at least for the next couple of years, this is a sufficient quantity. At any point trying to talk about spectrum return, when it does not exist as a policy, it is just really media speculation and we prefer not to not to talk about it.

Moderator: Thank you. The next question from the line of Vivekanand S from Ambit. Please go ahead.

Vivekanand S: I have two questions. One is with respect to the Rs. 68 billion of potential tax assets that the government owes to Vodafone India. Is there any update on that from the government? That is one. And the second question is with respect to the targets you had outlined in September 2020 for March 2022. You had said that we want to take up 4G population coverage to Rs. 1.15 billion and now you are still at around 1 billion. Do you want to revise that or potentially give an update on this?

Ravinder Takkar: Let me answer those in sequence. On the Vodafone India question regarding the tax, that has actually nothing to do with the company. That tax matter and implications is between Vodafone Group and the Government of India. So, there is no impact of that positively or negatively on VIL. The dispute is between those two groups and nothing to do with Vodafone Idea Limited. It is not appropriate for us and it is more a question for Vodafone Group.

In regards to your second question, on the target that we have set up. Yes, at that time, we had set up a target of Rs. 1.15 billion. If you remember, along with that, we had also announced that this is tied to the fundraising activities that we were doing. Let me explain how we had looked at that. We were planning on, and we completed 1 billion population coverage a couple of quarters ago. And then our focus was to make sure that we have enough capacity there to provide a great customer experience for that coverage level.

And the incremental coverage of 150 million, which you are referring to, was subject to us being able to do fundraising. As you know that we are still in the middle of fundraising and our fundraising process continues, any additional coverage improvements will only take place after the funds from this fundraise are deployed to CAPEX. Until then we are focused on delivering our capacity and the coverage that we have, which is over 1 billion of the population. I think that clarifies the question?

Vivekanand S: Ravinder, I was also curious about the tax related potential refunds for Vodafone Idea. During the last quarter Akshaya had commented that around Rs. 68 billion was to be received. I think the government had refunded you some Rs. 15 billion at that point of time. Is there any more money that has come in from the government in respect to the tax refunds?

Akshaya Moondra: Vivek, in the last quarter, which is the quarter ending June 21, we have received another Rs. 10 billion of tax refund, so now the balance receivable is Rs. 58 billion which we continue to pursue, and we do expect that we should get significant amount of tax refunds in the remaining part of the year. Some of these are based on the year in which the return is filed and there is a process, and there is a timeline to each assessment and processing of refunds. Those will happen in the normal course. In addition to the Rs. 10 billion that we have received in the last quarter, we do expect to receive a significant refund further in the rest of the year.

Moderator: Thank you. The next question from the line of Ashwin Agarwal from Newberry Capital. Please go ahead.

Ashwin Agarwal: My question is, you have mentioned you had hiked the 2G rates in some circles. Can you please clarify like in how many circles have you done the hikes?

Ravinder Takkar: We have been doing it progressively. We started off with two, then we enhanced it to five and I believe that the latest count is about 13 or 14 circles, where we have already reached a number and in the coming weeks, we will eventually go nationwide. So, we are progressively doing it and substantial number of circles have been done, and we will complete the footprint in the coming time.

Ashwin Agarwal: My second question is on the AGR case. It is a subjective question, but what do you think are the chances of a review petition being successful or a curative petition if you guys go for that?

Ravinder Takkar: It is difficult to comment on exactly how the court will take it, but maybe I will take a minute to just explain. Our contention is really that in the amount that has been written up in the judgment, there are manifest errors, mistakes, calculation errors, arithmetic errors that are there, which need to be fixed. It is not necessarily pointing the finger at somebody to say they made a mistake. It is a complicated exercise with a lot of data for many, many years for many circles for many companies.

It is very possible and feasible that these errors could take place over the years in which these calculations are done. So, all our intent is to say that we would like the government to fix those errors and mistakes. We have in fact sent the details of each of those mistakes and errors to the government. We have compiled it all together based on the assessments that we received and then provided to them.

All we are requesting the Supreme Court is to allow the government to fix those errors and mistakes, so that proper justice could be rendered, because clearly, it cannot be the intent of either the Government of India or the Supreme Court to make us to pay more or twice than what should actually be. In our AGR modification application, somehow, the court in the judgment felt that we are trying to reopen the judgment, that we are trying to reopen the case, and in some ways trying to challenge what was originally passed. We want it to be very clear, and this is what we have filed in our review petition as well, very clearly, is that it is not our intent to challenge the AGR judgment, it is not our intent to try to litigate that matter, that matter is closed. Our intention is for really for these manifest errors to be fixed.

If we did not do a good job last time around on the modification application, our hope is that the court will allow us to explain that in a clearer manner and allow DoT to actually fix those errors. I just find it very compelling, there is no reason why in our country, we should have this type of situation where we are asked to pay many times over for something that we have already paid for. So, I am very hopeful that in this review petition, and we can explain to the court because their point earlier was that somehow we are challenging the original wording, because that is not our intent. Hopefully that clarity can be provided. As you mentioned earlier, if somehow this review petition gets rejected, then we do have the ability to file a curative petition, which has a different process. And we can make that case. I hope it does not have to come to that. But if we have to take that step, then certainly we intend to do so.

Ashwin Agarwal: Just one follow up. Does the government have any power to take into account these corrections, even if the court does not let you considering you submitted the proof to them?

Ravinder Takkar: Well, in my view, I think the government has the powers, the government eventually has the power to run the country and decide what the right thing for the country is. In fact, if you remember, even in the Supreme Court filing that they had presented a cabinet note on which the details of number of installments and so on were put in and then that was obviously approved by the cabinet. So, I believe the government has the powers, although I think it is also helpful if the court agrees that these errors should be removed.

Moderator: Thank you. The next question is from the line of Kunal Vora from BNP Paribas. Please go ahead.

Kunal Vora: The first question, is there any update on floor tariffs, anything which you heard from the TRAI or any discussion with the government on tariffs and what is your thought process regarding taking the lead in raising tariffs considering that there are limited options to raise funds right now? So, if you can just answer that question?

Ravinder Takkar: Kunal, could you repeat the second part? I got the floor pricing. I did not get the second part.

Kunal Vora: Yeah. What is the thought process regarding taking lead in raising tariffs? There have been small tariff moves but the large one which is unlimited prepaid somebody has to take lead in raising tariffs. What are your thoughts on that? Because fundraising is clearly getting derailed now?

Ravinder Takkar: Let me answer those first. On the floor pricing, we have said it again and again, tariff hikes were the most critical item that is facing the industry right now. We have said that for a fairly long period of time. It has been said by all players in the industry, as well. We believe this is really important and there is no way the stress in the industry and the overall health of the industry can be improved until these things get solved.

If you look at our ARPUs, which is today at least between the three players, lowest but even for other players, we are looking at something which is in the Rs. 150 type of a range. If you compare that to 2016, when it was well north of Rs. 200, and if you adjusted for inflation on that basis, it will be well north of Rs. 300. That is the kind of ARPU and pricing that we need in the industry, for the industry to survive and remain healthy and continue to provide great infrastructure for the country. Now, we believe the floor pricing is the best way to do that. Because I think the discipline that is required to maintain a healthy pricing unfortunately in our industry has never really been stuck to.

Floor pricing we believe is the right way to do it. We also believe that the floor pricing does not have to be a longer-term measure. It does not have to be a permanent thing. That can be done in an interim manner, let us say for a couple of years. If the industry health becomes good and there is discipline in the industry, there is no reason why the floor pricing cannot be taken off at that point.

So, we remain optimistic. We are engaged with the government. We have explained to them that this is the right type of ARPUs and this is the kind of action that needs to be taken. I believe the government is considering it seriously. And I hope to see some action on that in the coming weeks and months.

Now in regard to your second part, which is taking the lead in tariff. You are right, but I think these steps that have been taken are important in some ways but they are not the biggest one. On the unlimited prepaid side, which is the bigger part, it will eventually have to be addressed through some kind of pro-pricing scenario. From a lead perspective, it is important to understand that we continue to take lead in many areas. For example, on the enterprise postpaid we went up from Rs. 199 to Rs. 299, we were the ones who took that first lead on that. We increased that price, and that have been followed. I know that they announced it before we did but we just did it. We did not really announce it, we did it and then they followed in a few days and then they announced it as well.

On the Rs. 49 to Rs. 79 on the minimum connectivity charge, they took the lead and we followed, and we are doing circle-by-circle. For example, on the postpaid family plan, we again we were the first ones to do it and then they followed. In some ways, as I had mentioned earlier, we are not stuck up on that we are not going to be the first ones to do it. We are happy to take action.

We have to do it keeping in mind our current position, the stability of our base and our revenues that we are trying to achieve as well as the fundraising efforts that are on, and we are trying to do. So, I think it is a mixture of that, but slowly we have been taking some of these actions and we will continue to take those as the opportunities arise. But as I mentioned earlier, the best way to make this stick longer term is floor pricing.

Kunal Vora: My second question is on postpaid. If I look at last five quarters, the total customer base in postpaid is declined by over 2.8 million. Can you explain which segments have been like more prone to churn? Is it mostly machine-to-machine customers or is it like corporates or retail? If you can explain like where you are seeing the churn in postpaid right now over the last few quarters?

Ravinder Takkar: The postpaid churn is a little bit in all segments. It is small amount, but there is a churn that is taking place. Due to the pandemic, we have seen, on the machine-to-machines side especially in the area of point-of-sale machines consolidation took place. I would say on the enterprise side on the SME because of again the pandemic and some of the challenge,s we saw some churn there as well where people decided. These are some of the reasons why some of those reduction took place as well. On retail, I think there continues to be churn because there is such a significant price gap between prepaid and postpaid today, sometimes for some customers that becomes a choice to say I would maybe lose the flexibility or the benefit of having a postpaid SIM but prefer to have a prepaid for cost benefits. We see some of that as well, especially due to the pandemic, and really sometimes in difficult financial conditions this happens. I have to say that most of the impact that you see in the last quarter is really pandemic related.

If we look at let us say what happened in last quarter, we pretty much reached a point where we were flat on postpaid subscription. We are sort of going through the trajectory of improving our postpaid base, and then we had reached a point that and then we have a little bit of a dip again in Q1. Again, I expect that Q2 we will see to start to see better performance in that area.

Kunal Vora: I just had one last question. Regarding the 3G base station, which you are switching off, can they be used for 4G? And how many 3G base stations are still to be switched off? And if you can share your CAPEX plans for FY22? Then any thoughts on what kind of 5G investments might be required over the next two, three years?

Ravinder Takkar: Maybe I will take the 5G question and then Akshaya can talk about the CAPEX plan and then the 3G base stations as well. Technically, it depends on the type of radio access network that you have. Some of the radios are already pre-worked for 3G and 4G, and some of them are only for 3G, which is lesser in case. So, when we are turning off 3G base stations effectively, it does not necessarily involve the equipment change, we just refarm the spectrum to start using as 4G. As was mentioned earlier, we decide city-by-city, location-by-location, as the 3G subscriber base becomes lesser and manageable. And at that point on that site, we turn off 3G refarm the spectrum and start using on 4G. That is the easiest and the fastest method. And we continue to do that in many of our locations.

On the 5G side, I think, frankly, it is a bit too early. We believe that first of all, the spectrum pricing on 5G is way higher than what they need to be for India. As you know, in the last auction as well, there was no bidding on 5G spectrum. I think some important steps will have to be taken where 5G spectrum costs will have to be reduced because there is really no case for that high cost. In regard to the 5G equipment itself, because of our equipment being the latest, lot of it is already 5G ready. It will of course, require some additional CAPEX, but we have been making sure that the technologies that we are using are 5G ready.

This is mostly on the radio side. On the core side, there are new 5G technologies that need to be deployed when 5G comes. We believe 5G is still in most use cases, couple of years away, in places like India, because really the biggest use case for 5G today is to add capacity at a cheaper cost compared to 4G, outside of India. In India today, given the number and the deployment of 4G that is taking place and the spectrum availability that is there, I think the CAPEX cycle will probably stay on 4G for a little while. Akshaya, if you want to please add the other aspects?

Akshaya Moondra: Kunal, the CAPEX trend will remain in the ballpark of last couple of quarters. For capacity, where we already have coverage, we are making the necessary investments. The higher investments that we need to make are in expanding the coverage. And that higher level of CAPEX would actually depend on the closure of the new funding. So, till the time that funding is in place, for this quarter and the coming quarter, we would expect to remain in the ballpark of the trends that we have seen over the last couple of quarters.

Moderator: Thank you. The next question is from the line of Varun Ahuja from Credit Suisse. Please go ahead.

Varun Ahuja: I have got two questions. First Ravinder, given that you have raised prices on the entry level plan on the 2G prepaid, last time if you remember, you saw a lot of churn the first time you introduced. What is your expectation on that front, given one of your competitor has mentioned that they do expect some churn? How do you see the response on that front?

Second, if you can comment about the bond repayment which are coming, how do you intend to do that given you are still in active discussion for fundraise?

Ravinder Takkar: Varun, let me answer the first one, then will hand over to Akshaya. Yes, we do expect some churn in that space. These non-UL customers tend to be price sensitive and also sometimes some dual SIMs are also there.

When the price goes up, they tend to consolidate either to one of the two providers that they may have or they tend to not recharge, where they are consuming less. Anyway, we will see churn as a result of that as people make choices. But again, given the fact that this is the price point in the industry, and telecom being an essential service, I think we would expect that there will be certain amount of uptick that will take place. In the early days, I can tell you that in the few circles that we have announced while we do see subscriber losses, we do see a slight curve in the upside as well. Overall, that is positive for the industry, and it is positive for us. I think the important point is that this is a step in the right direction. In some ways, customers consolidating their usage on a single provider is not necessarily a bad thing in the industry. Akshaya, over to you for the bond part?

Akshaya Moondra: Varun, on your question about the bond repayment, I would say that we are generating positive cash from our operations, which enables us to meet our CAPEX requirements, interest payments and smaller principal repayments.

We have lumpy bond redemptions in December'21 to February'22 timeframe for which we are basically working on two fronts. Firstly, we are engaged with the investors to get new funding and that discussion is in an active stage right now. The second is that we are in parallel discussion with the bondholders also to see what kind of refinancing possibilities are there. We believe with the combination of these two, we will be able to meet the requirements of bond repayments, which are falling due.

Varun Ahuja: If I may ask Ravinder, can you give what are the number of subscriber on this starter pack? Any rough indication?

Ravinder Takkar: The number of customers on the Rs. 49 plan?

Varun Ahuja: Yes.

Ravinder Takkar: I do not have the number offhand. I am not even sure if that is the number that we usually give out. But Varun, we can take that offline and see if we can share.

Moderator: Thank you. Ladies and gentlemen, due to time constraints, that was the last question. I now hand the conference over to Mr. Ravinder Takkar for closing comments.

Ravinder Takkar: Thank you, Margreth. To conclude, these are challenging times for our country. We hope that the disruptions post second wave of COVID are behind us as the massive vaccination drive continues. We hope the economic activities continue to pick up in the coming months. We are aware of our duty and the critical role we play to keep the nation connected and we remain committed to help our employees, customers, vendors and all our partners in every way possible. We will keep striving to provide uninterrupted services while mentioning exceptional quality of services.

This is a difficult phase for the Vodafone Idea family as well. We believe government recognizes the criticality of the sector. As the industry continues to remain under unsustainable financial duress, we remain hopeful that the government will provide the necessary interim support to address the structural issues faced by the sector, and enable operators to generate returns on their investments. Meanwhile, we continue to remain focused on providing quality service to our customers, sustain intensity in the market to win as well as work on the fund raising to deliver our goals.

Thank you all for joining this call. Stay safe and have a good evening.

Moderator: Thank you. On behalf of Vodafone Idea Limited that concludes this conference. Thank you for joining us, and you may now disconnect your lines.